

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny



Wednesday, March 24, 2004
1:30 p.m.
Room 2040

<u>Item</u>	<u>Department</u>	<u>Page</u>
0845	Department of Insurance	2
0890	Secretary of State... ..	3
1760	Department of General Services.....	5
8620	Fair Political Practices Commission.....	9
8910	Office of Administrative Law.....	10

Proposed Consent Calendar

<u>Item</u>	<u>Department</u>
0750	Office of the Lieutenant Governor
0850	California State Lottery Commission
1110	Board for Professional Engineers and Land Surveyors
1110	California State Board of Psychology
1111	Office of Privacy Protection
8320	Public Employment Relations Board
8385	California Citizens' Compensation Commission
8640	Political Reform Act of 1974

Control Section:

4.11 Establishing New Positions

Proposed Consent Calendar

Staff Recommendation: No issues have been raised with any items on the proposed consent calendar. Staff recommends the Subcommittee approve all items on the consent calendar.

Vote:

0845 Department of Insurance

The Office of the Insurance Commissioner enforces the insurance laws found in the California Insurance Code through regulation of the insurance industry. The Department fulfills that regulatory responsibility by regulating the over \$105 billion in direct premiums written in the state. The Department conducts examinations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and that insurance companies are financially viable and able to meet their obligations to policyholders and claimants. The Department also investigates complaints and responds to consumer inquiries, administers the conservation and liquidation of insolvent and delinquent insurance companies, reviews and approves insurance rates, and enforces laws to combat insurance fraud.

Issue

Budget Change Proposal: *Earthquake Grants and Loans Program.* The Administration proposes to eliminate the Earthquake Grants and Loans Program in the current year and transfer the \$2.9 million balance in the California Residential Earthquake Recovery Fund to the General Fund. This program was created for low to moderate-income residential property owners to minimize future earthquake damage to their homes. As of February 29, 2004, the program had expended approximately \$7.33 million since inception to retrofit 2,126 homes in 35 counties. The Earthquake Grants and Loans Program was established in 1995 and was originally set to expire in July 1, 2000. The Program was subsequently extended and augmented through July 1, 2007, in Chapter 448, Statutes of 2003 (Corbett).

Staff Comments: The Legislature was not originally informed of this program elimination through a BCP, the normal process for any such elimination. A BCP was provided only after it was requested by staff.

Staff Recommendation: Based on General Fund need and the small number of statewide beneficiaries, adopt the Administration's Earthquake Grants and Loans Program elimination proposal and the Department of Insurance's 2004-05 budget.

Vote:

0890 Secretary of State

The Secretary of State's (SOS) office has statutory responsibility for managing the filing of financial statements and corporate-related documents for the public record. As the chief election officer, the SOS administers and enforces election law and campaign disclosure requirements. In addition, the SOS office appoints notaries public, registers auctioneers, and manages the State's archives.

	2002-03	2003-04	Change from 2002-03		2004-05	Change from 03-04	
Total Budget	\$69,279	\$132,146*	\$62,867	90.7%	\$68,792	-\$63,354	-48.0%
Positions	433.6	478.5	44.9	10.4%	478.5	0	0%

(Dollars in 000s)

* Includes \$57,300 in HAVA funds.

Help America Vote Act. The federal Help America Vote Act of 2002 (HAVA) is expected to provide approximately \$250 million for changes to election equipment and processes in California. The Secretary of State is responsible for administering the federal HAVA requirements. The SOS has already received approximately \$81.2 million in current year HAVA funding through the Control Section 28 budget revision process.

Issue #1

LAO Recommendation— *The Secretary of State should provide a proposed spending plan for the approximately \$250 million in anticipated HAVA funds.*

Staff Comments: Delays in forming the Election Assistance Commission (the HAVA oversight body) and in promulgating guidelines for use have hindered states' ability to plan for how the federal funds are to be spent.

Notwithstanding these delays, the gravity of the policy decisions involved with their use suggests that budgeting these funds should be part of the normal budget development process. The alternative, a Control Section 28 letter in the current year, would not provide the oversight needed for a program of this magnitude.

Staff Recommendation: Hold this issue open and request the SOS provide an April Finance Letter detailing the spending plan for HAVA funds in the budget year. If the federal appropriation amounts change subsequent to that proposal, the dollar amounts would be updated during that process. All funds not specifically approved in that Finance Letter should be reviewed through the subsequent budget development process.

Vote:

Issue #2

Budget Change Proposal: *Establish 15 positions and \$1.7 million in expenditure authority for HAVA implementation.*

Staff Comments: Fifteen positions and funding were established in the current year through the Control Section 28 process (augmenting budgets for unanticipated nonstate funds). The availability and rate of expenditure for the HAVA funds is not certain beyond 2005-06.

Staff Recommendation: Approve the fifteen positions and associated expenditure authority for two years limited term. The known workload does not merit making these positions permanent.

Vote:

Issue #3

Budget Change Proposal: *Increased Notary Applicant Testing*

The Department requests funding to expand notary testing and establish 12 permanent positions at an ongoing cost of \$2,096,000. This option would allow the SOS to expand the current 205,000 certified notaries by annually testing approximately 120,000 more. The 12 requested positions are sought on a permanent basis.

Staff Comments: The Secretary of State has sought and received approval of Control Section 27.00 deficiency letters in 2002-03 and 2003-04 in order to expand testing and improve processing of notary certifications. The number of notary candidate tests administered has expanded greatly in the last three years, from 67,000 tested in 2001-02 to an expected 120,000 in 2003-04. This BCP would expand testing even further, more than doubling the number of notaries in the state within two years and improving the SOS' ability to rapidly process applications. According to the SOS's office, the rise in notary applications and notary services requests has been driven by the incidence of home refinancing.

Staff Recommendation: Approve the request for two years only. The dramatic expansion in notary testing and application processing provided by this proposal, combined with the uncertainty of the workload provided by the housing refinancing market, suggest that this BCP should be reconsidered after two years.

Vote:

1760 Department of General Services

The Department of General Services (DGS) is responsible for providing a wide array of support services to State departments and performing management and oversight activities related to these services. DGS provides these through three programs, (1) building regulation services, (2) real estate services, and (3) statewide support services.

Expenses for these services are primarily reimbursed through fees assessed to State departments.

	2002-03	2003-04	Change from 02-03		2004-05	Change from 03-04	
Total Budget	\$805,961	\$854,863	\$48,902	6.1%	\$875,908	\$21,045	2.5%
Positions	3831.5	4149.7	318.2	8.3%	4130.8	18.9	-1.0%

(Dollars in 000s)

Issue #1

Budget Change Proposal: Asset Enhancement Consultant Services.

The Department has submitted a BCP requesting two permanent Senior Real Estate Officer positions for disposing of properties owned by the Youth and Adult Correctional Authority.

LAO Recommendation: Establish the two Asset Enhancement positions as two-year limited term. It is uncertain at this time if additional YACA facilities will be proposed for closure and therefore the positions should be approved only for the known workload. Without additional information from the Administration on YACA facilities to be closed, the known YACA facilities workload can only be tied to the next two years.

Staff Comments: The department has indicated that the positions are intended not only for the closing of the YACA facilities, but also for properties owned by other State departments. DGS has also expressed concern that recruitment for the uncommon Senior Real Estate Officer classification would be difficult if the positions were limited to two years only.

Staff Recommendation: Approve the BCP on a three-year limited term basis. These positions will assist in the generation of significant new revenues in terms of both property sales and taxes from new property owners. A three-year time frame will permit the workload measures to be revisited without hindering recruitment for two the positions.

Vote:

Issue #2

DGS Statewide Service Fees. DGS charges fees to State departments to cover operating expense costs for its internal programs. The Budget proposes to maintain fees at the 2002-03 level. The Department had previously committed in the 2003-04 May Revise (and the Legislature approved) decreasing DGS expenditure authority by \$17 million and 23 positions. This savings was to result in a three to five percent fee reduction to departments.

LAO Recommendation. *The Legislature should direct DGS to lower their service fees by three percent.* Furthermore, the Legislature should additionally adopt budget bill language in order to ensure the reductions are implemented.

Staff Comments: In response to the LAO's analysis, the DGS has responded that due to an unforeseen transfer of \$13 million to the General Fund and unsupportable employee retirement costs, they were not able to make the planned reductions. DGS has also acknowledged flaws in their assumptions for the rate decrease.

The Department of Finance recognizes that rates should be reviewed again and may suggest a means to reform service fee rates for State departments in the Finance Letter process.

Staff Recommendation: Hold this issue open. The Department of Finance should be asked to provide revised estimates through the spring budget development process in order to better set service fee rates for State departments.

Vote:

Issue #3

Contracts and Lease Savings. Control Section 5.50 was added to the 2003-04 budget to allow DGS and State departments to renegotiate contracts and leases in order to generate savings. Of the \$100 million savings projected to be generated in the current year, only \$32 million has been identified. Furthermore, an unspecified portion of that amount is in question due to possible double counting.

LAO Recommendation: *The Administration should provide revised contracts and lease savings amounts for 2003-04 and 2004-05.*

Staff Comments: Finance has reported that it is analyzing the shortfall and will provide revised savings amounts in the May Revision. That information will include corrections for double counting by State departments and the DGS.

It should be noted that Finance did not meet the reporting requirement in Control Section 5.50 related to capturing contracts and lease savings. Subsection (f) stated:

At the time the 2004-05 Governor's Budget is submitted to the Legislature, the Department of Finance shall report to the Joint Legislative Budget Committee on the progress being made to implement these savings, and these savings shall be identified and included in the 2004-05 Governor's Budget.

Staff Recommendations:

1. Hold this issue open until after the May Revise when updated contract and lease savings numbers are available.
2. Advise Finance to report to the Joint Legislative Budget Committee pursuant to Control Section 5.50. The updated information should be submitted in a JLBC letter format. Additionally, the Department of Finance should explain why the requirement of Subsection (f) of Control Section 5.50 was not fulfilled.

Vote:

Issue #4

State Emergency Telephone Number Account. The reserves in the budget for this account are as follows: past year actual, \$62 million; current year estimated, \$49 million; and budget year, \$44 million. The budget year amount includes a one-time expenditure of \$23 million for emergency telephone enhanced wireless services.

Staff Comments:

The State Emergency Telephone Number Account has been utilized on two previous occasions to provide support to the General Fund during times of fiscal crisis. In 1993-1994, a transfer of \$15 million was made to the General Fund. In 2001-02, pursuant to Control Section 25.10 of 2001-02, the SCO transferred \$63 million from the State Emergency Telephone Account to the General Fund.

The possibility exists that the State Emergency Telephone Number Account could face decreased revenues in future years due to advances in wireless technology (e.g. Voice Over IP) that lower user costs. However, these potential costs should not preclude a transfer or loan from that account because the account consistently generates more revenue than what is budgeted. The recorded reserves from 1999-00 to 2003-04 have averaged \$67 million with actual balances averaging \$24 million more than what was budgeted.

Staff Recommendation: Transfer \$15 million from this account to the General Fund and loan an additional \$14 million to the General Fund. The loan would be scheduled for repayment by October 1, 2006. Based on the budgeted amounts, this transfer and loan leaves a prudent reserve of \$15 million, or approximately 10 percent of expenditures in the budget year, for unforeseen expenses or reduced revenues.

To provide additional security against unforeseen fund needs, the trailer bill for the General Fund loan should specify that the loan be repaid with interest and that the repayment be made so that programs supported by the fund are not adversely affected by the loan through a reduction in services or increased fees.

Vote:

Issue #5

Public School Planning, Design, and Construction Review Revolving Fund

This fund has had recent actual, estimated, and budgeted reserves as follows:

YEAR	FUND BALANCE (\$s in 000s)
2000-01 (actual)	\$26,437
2001-02 (actual)	\$32,454
2002-03 (actual)*	\$3,308
2003-04 (estimated)	\$5,833
2004-05 (budgeted)	\$43,692

* A \$35 million loan to General Fund was made this year.

Staff Comments: The repayment of this loan is scheduled for October 1, 2004. No significant programmatic impacts have been identified with delaying repayment for one year.

Staff Recommendation: Hold the issue of delaying repayment of the \$35 million loan by one year open until after the May Revise is released. At that time the need for additional General Fund relief will be better known. The loan provisions that applied to Item 1760-011-0328 of the 2002-03 Budget Act would again apply. Specifically, the loan must be repaid with interest and repayment made so those programs supported by the fund are not adversely affected by the loan through reduction in services or increased fees.

Vote:

Issue #6

Disability Access Account

This account has had recent actual, estimated, and budgeted reserves as follows:

YEAR	FUND BALANCE (\$s in 000s)
2000-01 (actual)	\$9,135
2001-02 (actual)	\$9,700
2002-03 (actual)*	-\$748
2003-04 (estimated)	\$437
2004-05 (budgeted)	\$11,700

* A \$10 million loan to General Fund was made this year.

Staff Comments: The repayment of this loan is scheduled for October 1, 2004. This account has a vocal support from the disabled community. No significant programmatic impacts have been identified with delaying repayment for one year.

Staff Recommendation: Hold the issue of delaying repayment of the \$10 million loan by one year open until after the May Revise is released. At that time the need for additional General Fund relief will be better known. The loan provisions that applied to Item 1760-011-0006 of the 2002-03 Budget Act would again apply. Specifically, the loan must be repaid with interest and repayment made so those programs supported by the fund are not adversely affected by the loan through reduction in services or increased fees.

Vote:

8620 Fair Political Practices Commission

The Fair Political Practices Commission (FPPC) is responsible for impartial administration, implementation, and enforcement of the Political Reform Act of 1974 and the California Political Reform Act of 1996. The objective of the 1974 Act and the responsibility of the FPPC is to (1) ensure that election campaign expenditure data is fully and accurately disclosed so that the voters are informed and to inhibit improper financial practices, (2) regulate the activities of lobbyists, (3) prevent conflicts of interest through disclosures of assets and income of public officials, (4) provide information for ballot initiatives, (5) eliminate laws and practices that unfairly favor incumbents to provide for fair elections, (6) provide adequate mechanisms to public officials and to private citizens to ensure vigorous enforcement of these acts. The 1996 Act added provisions to institute campaign contribution limits and limits.

Issue

Budget Change Proposal: Reduction to Non-Statutory Funding.

The Governor's Budget includes a \$809,000 reduction to the FPPC's non-statutory funding. This proposal would result in position reductions to legal council (1.5 positions) and political reform consultants (1-2 positions), elimination of the public outreach program, reduced local law enforcement activities, and other administrative reductions.

Staff Comment: The reductions to the FPPC's budget, although significant, do not merit denial. The FPPC's ability to meet its constitutional obligations is not jeopardized by this cut. Reductions are focused in areas where devolution to locals can occur.

Staff Recommendation: Approve the reduction proposed in the Governor's Budget.

Vote:**8910 Office of Administrative Law**

The Office of Administrative Law (OAL) is responsible for reviewing administrative regulations proposed by over 200 State regulatory agencies for compliance with standards set forth in California's Administrative procedure Act. The OAL transmits these regulations to the Secretary of State and oversees the publishing of regulations in the California Code of Regulations and Regulatory Notice Register. The OAL also assists State regulatory agencies through formal and informal training programs to facilitate understanding and compliance with the Administrative Procedure Act.

LAO Option –Eliminate the Office of Administrative Law, a savings of \$1.8 million in General Fund. As part of the LAO's "Additional Options" list for General Fund expenditure reductions, the LAO provides an option that the subcommittee eliminate the OAL. This proposal would require changes in the State Administrative Procedures Act.

Staff Comments: The LAO should prepare additional detail regarding the effects of this proposal, specifying what activities and programs would be eliminated and those that would be transferred to other departments.

Staff Recommendation: Staff recommends the subcommittee not adopt the LAO option at this time and keep the OAL budget open. The LAO should provide further detail on the effects and cost implications of this option.

Vote: